

THE CITY OF SEDAN, KANSAS

AUDIT REPORT

December 31, 2011

THE CITY OF SEDAN, KANSAS

December 31, 2011

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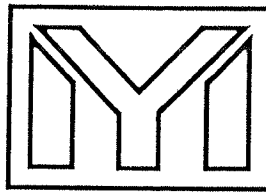
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THE CITY OF SEDAN, KANSAS

December 31, 2011

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YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

Randy Hoffman

American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor
and City Council
The City of Sedan, Kansas
109N. Chautauqua
Sedan, KS 67361

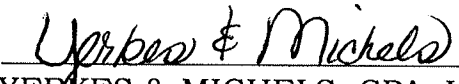
We have audited the accompanying statutory basis financial statements of the individual funds of The City of Sedan, Kansas, as of and for the year ended December 31, 2011 as listed in the table of contents. These statutory basis financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1C, The City of Sedan, Kansas prepared these statutory basis financial statements using accounting practices prescribed by the State of Kansas to demonstrate compliance with the cash basis and budget laws of the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America. The effects on the financial statements of the differences between the regulatory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the statutory basis financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of The City of Sedan, Kansas, as of December 31, 2011, or the changes in its financial position, or, where applicable, its cash flows for the year then ended. Further, The City of Sedan, Kansas has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Also, in our opinion, the statutory basis financial statements referred to in the first paragraph present fairly, in all material respects, the cash and unencumbered cash balances of the individual funds of The City of Sedan, Kansas, as of December 31, 2011, and their respective cash receipts, expenditures, and budgetary results for such funds for the year then ended on the basis of accounting described in Note 1C.


YERKES & MICHELS, CPA, LLC

November 16, 2012

THE CITY OF SEDAN, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Year Ended December 31, 2011

GOVERNMENTAL TYPE FUNDS	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Outstanding Encumbrances and Accounts Payable	Ending Cash Balance	
General	\$ 84,414.52	\$ -	\$ 511,568.55	\$ 493,765.16	\$ 102,217.91	\$ 25,816.99	\$ 128,034.90	General
Special Revenue								Special Revenue
Library Fund	-		20,566.54	20,138.72	427.82	1,060.03	1,487.85	Library Fund
Special Street and Highway Fund	16,193.52		29,735.70	27,624.66	18,304.56		18,304.56	Spec.Str.& Hwy.Fund
Employee's Benefit Fund	16,842.89		137,340.91	131,097.16	23,086.64		23,086.64	Employee Ben.Fund
Special Equipment Fund	9,485.24		2,296.56	4,569.12	7,212.68		7,212.68	Special Equipment Fund
Special Park Fund	44.72		5,800.00	3,700.18	2,144.54		2,144.54	Special Park Fund
Municipal Equipment Fund	13,647.92		5,000.00	8,162.14	10,485.78		10,485.78	Municipal Equipment Fund
Proprietary Type Funds								Proprietary Type Funds
Water Fund	219,486.79		445,674.04	371,906.92	293,253.91	11,926.02	305,179.93	Water Fund
Sewer Fund	80,847.60	-	128,000.27	136,675.17	72,172.70	1,015.60	73,188.30	Bond Reserve Fund
TOTAL PRIMARY GOVERNMENT	\$ 440,963.20	\$ -	\$ 1,285,982.57	\$ 1,197,639.23	\$ 529,306.54	\$ 39,818.64	\$ 569,125.18	TOTAL PRIMARY GOVERNMENT
COMPONENT UNITS								COMPONENT UNITS
Sedan Public Library	40,877.00		29,178.03	28,582.99	41,472.04	-	41,472.04	Sedan Public Library
Emmitt Kelly Museum	4,283.00		13,902.78	7,815.42	10,370.36	-	10,370.36	Emmitt Kelly Museum
TOTAL REPORTING ENTITY	\$ 486,123.20	\$ -	\$ 1,329,063.38	\$ 1,234,037.64	\$ 581,148.94	\$ 39,818.64	\$ 620,967.58	TOTAL REPORTING ENTITY

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS
SUMMARY OF CASH RECEIPTS, EXPENDITURES
AND UNENCUMBERED CASH

For the Year Ended December 31, 2011

COMPOSITION OF CASH			
First National Bank, Sedan, Kansas			
Checking Account No. 500119	\$	229,031.56	
Checking Account No. 258685		558.70	
Checking Account No. 214527		348.99	
Savings Account No. 456934		216.98	
Savings Account No. 454141		651.49	
Money Market Account No. 512354		7,627.01	
Certificate of Deposit No. 12182	\$	120,000.00	
Certificate of Deposit No. 12364		150,000.00	
Certificate of Deposit No. 13150		50,000.00	
		<u>320,000.00</u>	\$ 558,434.73
Bank of Sedan, Sedan, Kansas			
Money Market Account No. 1486			<u>10,690.45</u>
TOTAL PRIMARY GOVERNMENT			\$ 569,125.18
Component Units			
Sedan Public Library			
First National Bank, Sedan, Kansas			
Checking Account No. 24439	\$	1,019.31	
Checking Account No. 225920		392.74	
Savings Account No. 448346		4,796.29	
Money Market Account No. 502464		6,798.73	
Certificate of Deposit No. 12030		11,000.00	
Certificate of Deposit No. 12340		<u>17,464.97</u>	41,472.04
Emmitt Kelly Museum			
First National Bank, Sedan, Kansas			
Checking Account No. 208696	\$	8,142.06	
Savings Account No. 299372		677.82	
Money Market Account No. 512699		<u>1,550.48</u>	10,370.36
TOTSL REPORTING ENTITY			<u>\$ 620,967.58</u>

THE CITY OF SEDAN, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET

For the Year Ended December 31, 2011

	<u>Certified Budget</u>	<u>Adjustment For Qualifying Budget Credits</u>	<u>Total Budget for Comparison</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance Over (Under)</u>
<u>GOVERNMENTAL TYPE FUNDS</u>					
General	\$ 494,300.00	\$ -	\$ 494,300.00	\$ 493,765.16	\$ (534.84)
Special Revenue					
Library Fund	21,000.00		21,000.00	20,138.72	(861.28)
Special Street and Highway Fund	45,233.00		45,233.00	27,624.66	(17,608.34)
Employee's Benefit Fund	137,200.00		137,200.00	131,097.16	(6,102.84)
Special Equipment Fund	8,000.00		8,000.00	4,569.12	(3,430.88)
Special Park Fund	-		-	3,700.18	3,700.18
Proprietary Type Funds					
Water Fund	391,000.00		391,000.00	371,906.92	(19,093.08)
Sewer Fund	142,811.00		142,811.00	136,675.17	(6,135.83)

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

GENERAL FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Taxes	\$ 91,220.69	\$ 95,500.00	\$ (4,279.31)
Local Sales Tax	269,957.49	237,000.00	32,957.49
Guest Tax	3,491.83	2,200.00	1,291.83
Connecting Link	5,750.48	5,500.00	250.48
Fire and Police	7,499.18		7,499.18
Franchise Tax	51,081.54	54,000.00	(2,918.46)
Fines and Forfeitures	19,022.93	15,000.00	4,022.93
Fees and Charges	11,171.97	20,000.00	(8,828.03)
Interest	1,126.17	1,500.00	(373.83)
Comm Fisheries	3,495.75		3,495.75
Sale of Building and Equipment	22,530.00		22,530.00
Miscellaneous	15,220.52	4,300.00	10,920.52
Transfers	10,000.00	10,000.00	-
TOTAL CASH RECEIPTS	<u>\$ 511,568.55</u>	<u>\$ 445,000.00</u>	<u>\$ 66,568.55</u>
EXPENDITURES			
Administrative	\$ 102,233.05	\$ 91,000.00	\$ 11,233.05
Police Department	103,926.42	120,000.00	(16,073.58)
Fire Department	25,552.13	9,000.00	16,552.13
Street Department	53,018.01	60,000.00	(6,981.99)
Ambulance	30,000.00	30,000.00	-
Park	11,419.70	7,000.00	4,419.70
Street Lighting	20,171.18	21,000.00	(828.82)
Hospital	133,612.87	122,000.00	11,612.87
Museum	5,500.00	5,500.00	-
Fair	4,300.00	4,300.00	-
Tourism	2,706.16	3,200.00	(493.84)
Pool		21,000.00	(21,000.00)
Lease Purchase Payment	1,000.00		1,000.00
Miscellaneous	325.64	300.00	25.64
TOTAL EXPENDITURES	<u>\$ 493,765.16</u>	<u>\$ 494,300.00</u>	<u>\$ (534.84)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 17,803.39		
UNENCUMBERED CASH, BEGINNING	<u>84,414.52</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 102,217.91</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

LIBRARY FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Taxes	\$ 20,566.54	\$ 21,832.00	\$ (1,265.46)
TOTAL CASH RECEIPTS	\$ 20,566.54	\$ 21,832.00	\$ (1,265.46)
EXPENDITURES			
Appropriations to Library Board	\$ 20,138.72	\$ 21,000.00	\$ (861.28)
TOTAL EXPENDITURES	\$ 20,138.72	\$ 21,000.00	\$ (861.28)
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 427.82		
UNENCUMBERED CASH, BEGINNING	<u>-</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 427.82</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

SPECIAL STREET AND HIGHWAY FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
State of Kansas	\$ 29,735.70	\$ 30,850.00	\$ (1,114.30)
County	-	500.00	(500.00)
TOTAL CASH RECEIPTS	<u>\$ 29,735.70</u>	<u>\$ 31,350.00</u>	<u>\$ (1,614.30)</u>
EXPENDITURES			
Street Repair and Maintenance	\$ 6,880.80	\$ 6,633.00	\$ 247.80
Personal Services	12,852.06	32,000.00	(19,147.94)
Lease Purchase Payments	<u>7,891.80</u>	<u>6,600.00</u>	<u>1,291.80</u>
TOTAL EXPENDITURES	<u>\$ 27,624.66</u>	<u>\$ 45,233.00</u>	<u>\$ (17,608.34)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 2,111.04		
UNENCUMBERED CASH, BEGINNING	<u>16,193.52</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 18,304.56</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

EMPLOYEE BENEFIT FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Taxes	\$ 103,978.91	\$ 109,526.00	\$ (5,547.09)
Miscellaneous	1,362.00	-	1,362.00
Transfers	<u>32,000.00</u>	<u>-</u>	<u>32,000.00</u>
TOTAL CASH RECEIPTS	<u>\$ 137,340.91</u>	<u>\$ 109,526.00</u>	<u>\$ 27,814.91</u>
EXPENDITURES			
Employee Benefits	<u>\$ 131,097.16</u>	<u>\$ 137,200.00</u>	<u>\$ (6,102.84)</u>
TOTAL EXPENDITURES	<u>\$ 131,097.16</u>	<u>\$ 137,200.00</u>	<u>\$ (6,102.84)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 6,243.75		
UNENCUMBERED CASH, BEGINNING	<u>16,842.89</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 23,086.64</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

SPECIAL EQUIPMENT FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Taxes	\$ 2,296.56	\$ 2,360.00	\$ (63.44)
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CASH RECEIPTS	<u>\$ 2,296.56</u>	<u>\$ 2,360.00</u>	<u>\$ (63.44)</u>
EXPENDITURES			
Leas Purchase Payments	\$ 4,276.06	\$ 8,000.00	\$ (3,723.94)
Miscellaneous	<u>293.06</u>	<u>-</u>	<u>293.06</u>
TOTAL EXPENDITURES	<u>\$ 4,569.12</u>	<u>\$ 8,000.00</u>	<u>\$ (3,430.88)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (2,272.56)		
UNENCUMBERED CASH, BEGINNING	<u>9,485.24</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 7,212.68</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

SPECIAL PARK FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Donations	\$ 5,800.00	\$ -	\$ 5,800.00
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CASH RECEIPTS	<u>\$ 5,800.00</u>	<u>\$ -</u>	<u>\$ 5,800.00</u>
EXPENDITURES			
Commodities	\$ 3,700.18	\$ -	\$ 3,700.18
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 3,700.18</u>	<u>\$ -</u>	<u>\$ 3,700.18</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 2,099.82		
UNENCUMBERED CASH, BEGINNING	<u>44.72</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 2,144.54</u>		

THE CITY OF SEDAN, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
MUNICIPAL EQUIPMENT FUND

For the Year Ended December 31, 2011

	<u>Actual</u>
CASH RECEIPTS	
Transfers	\$ 5,000.00
Miscellaneous	<u>-</u>
TOTAL CASH RECEIPTS	<u>\$ 5,000.00</u>
EXPENDITURES	
Lease Purchase Payments	\$ 3,445.84
Contractual Services	1,890.00
Repairs	<u>2,826.30</u>
TOTAL EXPENDITURES	<u>\$ 8,162.14</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (3,162.14)
UNENCUMBERED CASH, BEGINNING	<u>13,647.92</u>
UNENCUMBERED CASH, ENDING	<u>\$ 10,485.78</u>

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

WATER FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Water Sales	\$ 418,286.36	\$ 419,600.00	(1,313.64)
Connection Fees	5,889.00		5,889.00
Penalties	10,590.34		10,590.34
Sales Tax	5,951.85		5,951.85
Interest	3,475.08		3,475.08
Miscellaneous	<u>1,481.41</u>	<u>15,000.00</u>	<u>(13,518.59)</u>
TOTAL CASH RECEIPTS	<u>\$ 445,674.04</u>	<u>\$ 434,600.00</u>	<u>\$ 11,074.04</u>
EXPENDITURES			
Personal Services	\$ 63,691.12	\$ 66,000.00	\$ (2,308.88)
Water Purchased	206,410.00	-	206,410.00
Contractual Services	13,843.16	90,000.00	(76,156.84)
Commodities	39,962.64	168,000.00	(128,037.36)
Capital Outlay		20,000.00	(20,000.00)
Lease Purchase Payments	1,000.00	-	1,000.00
Transfers	<u>47,000.00</u>	<u>47,000.00</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 371,906.92</u>	<u>\$ 391,000.00</u>	<u>\$ (19,093.08)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 73,767.12		
UNENCUMBERED CASH, BEGINNING	<u>219,486.79</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 293,253.91</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

SEWER FUND

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Sewer Charges	\$ 128,000.27	\$ 128,000.00	\$ 0.27
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL CASH RECEIPTS	<u>\$ 128,000.27</u>	<u>\$ 128,000.00</u>	<u>\$ 0.27</u>
EXPENDITURES			
Personal Services	\$ 41,249.80	\$ 55,000.00	\$ (13,750.20)
Contractual Services	367.00	10,000.00	(9,633.00)
Commodities	32,631.72	15,000.00	17,631.72
Capital Outlay	-	1,000.00	(1,000.00)
Lease Purchase Payments	615.25		615.25
Principal	47,350.52	48,000.00	(649.48)
Interest	13,335.92	13,811.00	(475.08)
KDHE Service Fees	1,124.96	-	1,124.96
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL EXPENDITURES	<u>\$ 136,675.17</u>	<u>\$ 142,811.00</u>	<u>\$ (6,135.83)</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ (8,674.90)		
UNENCUMBERED CASH, BEGINNING	<u>80,847.60</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 72,172.70</u>		

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

THE CITY OF SEDAN, KANSAS

STATEMENT OF CASH RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET

SEDAN PUBLIC LIBRARY

For the Year Ended December 31, 2011

	<u>Actual</u>	<u>Budget</u>	Variance Over (Under)
CASH RECEIPTS			
Appropriations	\$ 19,506.51	\$ 21,230.00	\$ (1,723.49)
State and Local Grants	7,317.60	6,095.00	1,222.60
Donations	700.00		700.00
Interest	486.94		486.94
Miscellaneous	<u>1,166.98</u>	<u>-</u>	<u>1,166.98</u>
TOTAL CASH RECEIPTS	<u>\$ 29,178.03</u>	<u>\$ 27,325.00</u>	<u>\$ 1,853.03</u>
EXPENDITURES			
Personal Services	\$ 16,055.00	\$ 18,000.00	\$ (1,945.00)
Capital Outlay	-		-
Commodities	8,417.63	8,450.00	(32.37)
Contractual	<u>4,110.36</u>	<u>875.00</u>	<u>3,235.36</u>
TOTAL EXPENDITURES	<u>\$ 28,582.99</u>	<u>\$ 27,325.00</u>	<u>\$ 1,257.99</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 595.04		
UNENCUMBERED CASH, BEGINNING	<u>40,877.00</u>		
UNENCUMBERED CASH, ENDING	<u>\$ 41,472.04</u>		

THE CITY OF SEDAN, KANSAS
STATEMENT OF CASH RECEIPTS AND EXPENDITURES
EMMETT KELLY MUSEUM

For the Year Ended December 31, 2011

	<u>Actual</u>
CASH RECEIPTS	
Appropriations	\$ 5,500.00
State and Local Grants	7,323.20
Donations	685.50
Sales	389.00
Interest	<u>5.08</u>
TOTAL CASH RECEIPTS	<u>\$ 13,902.78</u>
EXPENDITURES	
Personal Services	\$ 1,732.05
	-
Capital Outlay	1,365.00
Commodities	2,116.00
Lease Purchase Payment	
Contractual	<u>2,602.37</u>
TOTAL EXPENDITURES	<u>\$ 7,815.42</u>
RECEIPTS OVER (UNDER) EXPENDITURES	\$ 6,087.36
UNENCUMBERED CASH, BEGINNING	<u>4,283.00</u>
UNENCUMBERED CASH, ENDING	<u>\$ 10,370.36</u>

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1A. FINANCIAL REPORTING ENTITY

The City of Sedan is a municipal corporation governed under an elected Mayor-Council form of government. These financial statements present the City of Sedan (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

DISCRETELY PRESENTED COMPONENT UNITS

The component units section of the financial statements includes the financial data of the discretely presented component units. These component units are reported separately to emphasize that they are legally separate from the City.

Sedan Public Library – The City's public library is governed by a City-appointed board. It is fiscally dependent on the City for the majority of its revenue.

The Emmett Kelly Museum is governed by a City appointed board, and the City may exercise control over its operations. The City provides an appropriation to the museum each year.

1B. REIMBURSEMENTS

The City of Sedan, Kansas records reimbursable expenditures in the fund that makes the disbursement and records reimbursements as revenue to the fund. For purposes of budgetary comparisons, the expenditures are properly offset by the reimbursements.

1C. BASIS OF PRESENTATION AND BASIS OF ACCOUNTING

The *Statutory Basis of Accounting*, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the statutory basis of accounting.

The accounts of the reporting entity are organized into funds, each of which is considered to be separate accounting entities.

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The following types of funds comprise the financial activities of The City of Sedan, Kansas, for the year 2011:

GOVERNMENTAL FUNDS

General Fund--to account for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds--to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Funds--to account for the accumulation of resources for, and the payment of, interest and principal on general long-term debt, and the financing of special assessments which are general obligations of The City of Sedan, Kansas.

PROPRIETARY FUNDS

Enterprise Funds--to account for operations that are financed and operated in a manner similar to private business enterprises--where the stated intent is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges--or where periodic determination of revenues earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

1D. DEPARTURE FROM ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

The basis of accounting described in Note 1C above results in a financial statement presentation, which shows cash receipts, expenditures, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable, and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles. Capital assets that account for the land, buildings, and equipment owned by the City are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

2A. BUDGETARY INFORMATION

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd.)

newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. The General Fund and Water Fund budget was amended in 2011.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrance, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for the following special revenue fund:
Municipal Equipment Fund.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by internal spending limits established by the governing body.

2B. COMPLIANCE WITH FINANCE-RELATED LEGAL AND CONTRACTUAL MATTERS

The expenditures from the Special Park Fund exceeded the amount budgeted. This is a violation of KSA-2935.

Management is not aware of any other violations of compliance with Kansas Statutes or violations of other finance related legal matters.

NOTE 3 - DEPOSITS AND INVESTMENTS

At December 31, 2011, the City had no investments.

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (cont'd.)

deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. Government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Related Party transactions: As of December 31, 2011, the mayor of the city was also president of the bank where the majority of the cities' funds are on deposit.

Concentration of credit risk. State statutes place no limit on the amount the City may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.

Custodial credit risk – deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2011.

At December 31, 2011, the carrying amount of the City's deposits, including certificates of deposit, was \$569,125.18. The bank balance was \$605,299.77. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by two banks, resulting in a concentration of credit risk. Of the bank balance \$260,690.45 was covered by FDIC insurance, and \$344,609.32 was collateralized by pledged securities held by the pledging financial institution's agents in the City's name.

At year-end the carrying amount of the Sedan Public Library's deposits was \$41,472.04. The bank balance was \$43,274.42. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank, resulting in a concentration of credit risk. Of the bank balance \$43,274.42 was covered by FDIC insurance.

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 3 - DEPOSITS AND INVESTMENTS (cont'd.)

At year-end the carrying amount of the Emmitt Kelly Museum's deposits was \$10,370.36. The bank balance was \$10,870.86. The difference between the carrying amount and the bank balance is outstanding checks and deposits in transit. The bank balance was held by one bank, resulting in a concentration of credit risk. Of the bank balance, \$10,870.86 was covered by FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

NOTE 4 – LONG-TERM DEBT

SEE SCHEDULE ON PAGES 24-25.

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan description. The City contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, Kansas 66603-3803) or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established for calendar year 2011 was 7.74%. The City employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$16,525.48, \$17,996.00 and \$16,813.00, respectively, equal to the required contributions for each year as set forth by the legislature.

THE CITY OF SEDAN, KANSAS
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 6 – VACATION, SICK LEAVE AND OTHER COMPENSATED ABSENCES

City employees are entitled to certain compensated absences based on their length of employment. Compensated absences do not accumulate, are lost if not used, and are recorded as expenditures when they are paid.

NOTE 7 – OTHER POST EMPLOYMENT BENEFITS

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the City under this program.

NOTE 8 - INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Statutory Authority</u>	<u>Amount</u>
Water Fund	General	K.S.A. 12-825d	\$ 10,000.00
Water Fund	Employee Benefit Fund	K.S.A. 12-825d	\$ 32,000.00
Water Fund	Municipal Equipment Fund	K.S.A. 12-825d	<u>5,000.00</u>
			<u>\$ 47,000.00</u>

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries commercial insurance. Settlements of claims have not exceeded coverage during the past three fiscal years.

NOTE 10 – USE OF ESTIMATES

The preparation of statutory basis financial statements requires management to make estimates and assumptions that affect the reported amounts of expenditures during the audit period, encumbrances outstanding, and disclosure of contingencies at the end of the audit period. Actual results could differ from the estimates.

THE CITY OF SEDAN, KANSAS

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 4 - LONG-TERM DEBT (cont'd)

Changes in long-term liabilities for the City for the year ended
December 31, 2011 were as follows:

<u>Issue</u>	<u>Interest Rates</u>	<u>Date of Issue</u>	<u>Amount Issue</u>	<u>Date of Final Maturity</u>	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Reductions/ Payments</u>	<u>Net Change</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
LOAN										
KDHE - C20 1268	3.34%	6/1/94	236,000.00	9/1/15	74,263.79		13,885.43	(13,885.43)	60,378.36	2,188.38
KDHE -C20 1496	3.19%	8/23/99	702,600.00	9/1/20	387,467.96		33,465.09	(33,465.09)	354,002.87	11,147.54
CAPITAL LEASES										
Street Sweeper	5.50%	9/10/99	27,000.00	9/10/12	16,287.40		9,115.16	(9,115.16)	7,172.24	668.32
Backhoe	4.95%	6/16/06	36,500.00	6/16/11	8,038.40		8,038.40	(8,038.40)	-	407.07
Backhoe Loader	3.55%	8/10/11	40,514.00	9/10/16		40,514.00		40,514.00	40,514.00	
					-	-	-	-	-	-
					<u>\$ 486,057.55</u>	<u>\$ 40,514.00</u>	<u>\$ 64,504.08</u>	<u>\$ (23,990.08)</u>	<u>\$ 462,067.47</u>	<u>\$ 14,411.31</u>

THE CITY OF SEDAN, KANSAS

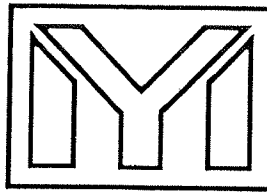
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2011

NOTE 4 - LONG-TERM DEBIT (cont'd)

Current maturities of long-term debt and interest for the next five years and in five-year increments through maturity are as follows:

	Year 2012	Year 2013	Year 2014	Year 2015	Year 2016	2017-2021	TOTAL
PRINCIPAL							
Loan							
KDHE - C20 1268	14,353.08	14,836.48	15,336.15	15,852.66	-	-	60,378.37
KDHE -C20 1496	34,541.14	35,651.78	36,798.14	37,981.37	39,202.64	169,827.80	354,002.87
Capital Leases							
Street Sweeper	7,172.24						7,172.24
Backhoe Loader	7,538.58	7,810.60	8,092.42	8,384.41	8,687.99	-	40,514.00
	-	-	-	-	-	-	-
TOTAL PRINCIPAL	\$ 63,605.04	\$ 58,298.86	\$ 60,226.71	\$ 62,218.44	\$ 47,890.63	\$ 169,827.80	\$ 462,067.48
INTEREST							
Loan							
KDHE - C20 1268	1,755.74	1,308.52	846.25	368.40	-	-	4,278.91
KDHE -C20 1496	10,155.81	9,132.21	8,075.69	6,985.19	5,859.64	11,441.45	51,649.99
Capital Leases							
Street Sweeper	165.37						165.37
Backhoe Loader	1,461.88	1,189.86	908.04	616.50	312.47	-	4,488.75
	-	-	-	-	-	-	-
TOTAL INTEREST	\$ 13,538.80	\$ 11,630.59	\$ 9,829.98	\$ 7,970.09	\$ 6,172.11	\$ 11,441.45	\$ 60,583.02
TOTAL PRINCIPAL & INTEREST	\$ 77,143.84	\$ 69,929.45	\$ 70,056.69	\$ 70,188.53	\$ 54,062.74	\$ 181,269.25	\$ 522,650.50



YERKES & MICHELS, CPA, LLC

CERTIFIED PUBLIC ACCOUNTANTS

John D. Carroll, CPA
Carmen R. Duroni, CPA

Randy Hoffman

American Institute of Certified Public Accountants
Kansas Society of Certified Public Accountants
An Independent C.P.A. Firm

INTERNAL CONTROL LETTER

Honorable Mayor and City Council
City of Sedan, Kansas
109 N. Chautauqua
Sedan, KS 67361

In planning and performing our audit of the financial statements of the City of Sedan, Kansas, as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the statutory basis financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed on the following page, we identified deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the statutory basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

Due to the new auditing standards, we are required at a minimum to report a significant deficiency on the operations of an entity that has a limited number of staff to perform segregate duties, and properly review procedures as required in an ideal internal control structure. In order to have ideal segregation of duties, the custody of assets, the authorization of transactions involving those assets, and the recording of those

transactions should all be performed by separate individuals. In a smaller entity setting, it is very difficult to maintain ideal segregation of duties. We considered this lack of segregation of duties to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.

This report is intended solely for the information and use of the Honorable Mayor, City Council and the management of the City of Sedan, Kansas and for filing with the Division of Accounts and Reports and is not intended to be, and should not be, used by anyone other than these specified parties. However, this communication is a matter of public record and its distribution is not limited.


YERKES & MICHELS, CPA, LLC

November 16, 2012

SIGNIFICANT DEFICIENCIES

SEGREGATION OF DUTIES

- Condition: Due to the auditing standards, we are required at a minimum to report a significant deficiency on the operations of an entity that has a limited number of staff to perform segregate duties, and properly review procedures as required in an ideal internal control structure. In order to have ideal segregation of duties, the custody of assets, the authorization of transactions involving those assets, and the recording of those transactions should all be performed by separate individuals. In a small entity setting, it is very difficult to maintain ideal segregation of duties. We considered this lack of segregation of duties to be a significant deficiency under standards established by the American Institute of Certified Public Accountants.
- Status: At this time, we understand it would be cost prohibitive to increase staff in the City offices sufficiently to rectify this situation. Current office staff and the City Council should, however, continually review the opportunity to implement segregation of duties that will enhance the internal control structure at a minimal cost to the City.
- Recommendation: We recommend that the office staff continually review their procedures for opportunities to increase the segregation of duties in the office as well as the overall internal controls and oversight over the accounting functions in the office. We recommend the Council be aware of the importance of segregating the office duties in order to maintain a good internal control structure that will aid in the prevention and detection of errors and irregularities whether caused by fraud or human error.